

## I. INTRODUCTION

Q. Please state your name, position and business address.

A. My name is Peter H. Kelley. I am President and Chief Operating Officer of Southern Union Company ("Southern Union" or "Company"). My business address is 504 Lavaca Street, Suite 900, Austin, Texas 78701.

Q. Please summarize your professional experience.

A. I have been President and Chief Operating Officer of the Company since February 1990. I have been a member of the Executive Committee of Southern Union's Board of Directors since March 1990. I serve on the Boards of Directors of Chase Bank Texas, Capstone Microturbines, and PointServe. I am also a board member of Texas Nature Conservancy, KLRU Public Television, the Progressive Policy Institute, a Washington, D.C. think tank, and past Chairman of the Board of the American Lung Association of Texas. I have been named to the National Petroleum Council, serve on the Seton Hospital Developmental Committee and the Governor's Economic Council, and am very active in the community Partners-in-Education program. Before joining Southern Union, I was employed in the competitive telecommunications business as Vice President of Operations of Metro Mobile in New York and Vice President of Technical Operations for Cellular Phone Stores in Maryland, Pennsylvania, and Virginia.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe Southern Union, its organizational structure, and its business approach and strategic direction. My testimony also discusses the reasons for the merger with Providence Energy Corporation ("ProvEnergy") and its operating affiliate, North Attleboro Gas Company ("North Attleboro"), and how the merger is consistent with the Company's business approach and strategic direction and will be beneficial to North Attleboro's customers. Lastly, my testimony reviews the manner in which the gas distribution system will be managed as part of Southern Union's overall operations.

## II. SOUTHERN UNION'S ORGANIZATIONAL STRUCTURE AND BUSINESS APPROACH

Q. Please describe Southern Union and its organizational structure.

A. Founded in 1929 in Texas, the Company's primary business is the sale and distribution of natural gas. Southern Union now serves approximately 1.2 million gas distribution customers through four operating divisions. Our Texas division, Southern Union Gas Company, serves approximately 523,000 customers in various Texas towns and cities in west Texas (including El Paso and Monahans), the Gulf Coast (including Galveston and Port Arthur), the Rio Grande Valley (including McAllen and Brownsville), south central Texas (including Austin and Lockhart), and north Texas (including Mineral Wells and Weatherford). Our Missouri division, Missouri Gas Energy, serves approximately 487,000 customers in western Missouri, including the cities of Kansas City, St. Joseph, Monett, and Joplin. Southern Union acquired its Missouri properties in early 1994. Our Florida division, South Florida Natural Gas, serves approximately 5,000 customers in the vicinity of New Smyrna Beach and Lauderhill and was acquired in January 1998. Our newest division, PG Energy, was acquired by Southern Union in November 1999, and serves about 154,000 gas distribution customers in central and northeastern Pennsylvania, including the cities of Scranton, Wilkes-Barre and Williamsport.

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In addition to its natural gas distribution divisions, Southern Union has several energy-related, non-utility subsidiaries. These subsidiaries are involved in natural gas marketing, electric power marketing, intrastate pipeline transportation service, propane sales and distribution, and international (Mexico) activities.

Q. Please describe Southern Union's business approach and its strategic direction.

A. Southern Union's business approach emphasizes efficient operations, high quality customer service, sales activities that focus on improved utilization of our distribution systems, and growth through cost-effective system expansions and strategic acquisitions. In short, our approach is founded on the objective of providing high quality, reliable energy service at competitive rates. We believe that this approach will make us a highly successful participant in the increasingly competitive energy marketplace. Southern Union expects that highly reliable, low cost gas distribution service will lead to growth in customers and throughput, thereby creating value for both customers and shareholders.

We adopted this approach in early 1990 when Southern Union was acquired by the shareholders of Metro Mobile CTS, Inc. As a result of the structure of that transaction, Southern Union was reorganized with a new group of shareholders and a new Board of Directors. The new Board of Directors and management team recognized an opportunity to refocus the Company's business objectives and to grow the business in a cost-effective manner. We have been very successful in our approach and have turned the Company into an efficient energy leader.

Q. Please describe the factors that have made this business approach successful.

A. Although there are a number of factors that are important to the success of our business approach, the most important are safety and reliability, low cost gas procurement, highly motivated employees, deployment of new technologies, and economic development.

Q. Why are safety and reliability important?

A. Providing safe and reliable service is a prerequisite to successful participation in an increasingly competitive marketplace. Price is secondary if the service is not safe and dependable. Southern Union management is proud of its track record of providing safe and reliable service and will continue to stress the importance of these factors to all of the Company's decision-makers and to all of its employees. The Company complies with all state and U.S. Department of Transportation regulatory requirements, and our operations and maintenance plans typically exceed requirements in all states in which we operate. Southern Union looks forward to working with the ProvEnergy management to maintain the safe and reliable service provided to customers by North Attleboro.

The recent developments in the area of performance-based regulation typically recognize the importance of maintaining service quality and reliability. The Massachusetts Department of Telecommunications and Energy has also recognized the importance of service quality in several recent merger approval orders.

Q. Why is low cost gas procurement important to Southern Union?

A. After safety and reliability, the customer's primary concern is the amount of his

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or her bill. Although low cost distribution service benefits the customer, the cost of gas portion of a customer's bill often can represent more than half of the total bill for a sales customer. Southern Union works diligently to secure additional supply sources in order to place competitive pressures on incumbent suppliers in its service areas. For example, after acquiring its Missouri properties, the Company successfully negotiated with a major pipeline to expand service to the Kansas City area. The Company also actively participates in proceedings before the Federal Energy Regulatory Commission. Our efforts in various El Paso Natural Gas Company rate proceedings have helped to keep customer bills in our El Paso Service Area among the lowest in the nation. In the Northeast, the natural gas industry competes with fuel oil and other heating energy sources for the privilege of serving customers, and, therefore, it is imperative that we maintain the lowest costs possible in order to maintain and grow our customer base in this region. Southern Union will apply its resources and expertise to meet North Attleboro customer demands for reasonably priced, reliable service.

Q. Why are highly motivated employees important to Southern Union?

A. Southern Union believes that for its business objectives to be achieved, employees must have a clear understanding of the Company's overall business strategy and must be able to make effective, timely decisions in today's fast paced business environment. Southern Union's employees are knowledgeable, highly motivated individuals who are provided with the tools to achieve our business objectives. Southern Union has a "flat" organizational structure; therefore, employees at all levels have significant decision making responsibility and authority and are committed to our business strategy and objectives. In fact, through cross-training opportunities and active team participation, Southern Union's employees have proven to be our most valuable resource. As an example, during the second half of 1999, we implemented the Southern Union Company Comprehensive Employee Success Strategy ("SUCCESS") process to engage our workforce in strategic planning practices. More than 60 percent of our employees participated in various phases of the SUCCESS process, from training sessions to strategic brainstorming sessions, which generated thousands of business ideas. This process helped to identify promising directions for the growth of Southern Union's business and expansion of the services available to our customers. In bringing North Attleboro into the Southern Union organization, Southern Union will be in a position to extend this successful management approach to the employees of ProvEnergy and its affiliate, North Attleboro.

Q. Please explain why new technology deployment is an important factor to the success of Southern Union's business approach.

A. Cost-effective deployment of technology initiatives is the key to the attainment of improved operating efficiencies and/or enhanced customer service, both of which are critical to successful participation in today's energy marketplace. For example, the Company installed automated meter reading systems throughout its Missouri properties, achieving its objective of enhancing customer service by ensuring timely and accurate billing and virtually eliminating estimated bills. The Company is currently developing a workforce automation project that, when fully operational, will enable customer scheduling of specific service appointment times and more efficient use of service personnel through automated routing of best suited and available resources.

Q. Why is economic development important to Southern Union?

A. Southern Union strongly believes that when a local economy prospers, both businesses and residents benefit. By working to keep its rates and gas costs as low as possible, Southern Union makes a significant contribution to economic development of the local economy. Southern Union employees also participate in chambers of

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commerce and local economic development boards and work to provide input to local officials in their efforts to attract new businesses to the area. The Company also works with its regulators to develop rate structures that are compatible with economic development and will attract new business to an area.

### III. SOUTHERN UNION'S MERGER WITH NORTH ATTLEBORO

Q. Please describe why the Company agreed to the merger with ProvEnergy and its affiliate, North Attleboro and how the merger is consistent with the Southern Union's business approach.

A. Southern Union sought the three pending mergers in the New England area (ProvEnergy, Fall River Gas Company, and Valley Resources, Inc.) for strategic purposes. By expanding the geographic diversity of its operations, Southern Union will further reduce its dependence on economic and weather conditions in any single operating region. Thus, the stability of the Company's earnings and cash flow will be enhanced. Also, as a result of the merger, Southern Union will extend and enhance the scope of its operations in the northeastern United States beyond its recently completed Pennsylvania acquisition.

In entering into these mergers, Southern Union recognized that these companies and Southern Union have compatible business perspectives, providing the opportunity to effectively coordinate our operations. The assimilation of these new gas divisions into our existing structure will enable us to improve operations throughout the Company by identifying and adopting best practices from each of the operating divisions. Although the Company's primary motivation in arranging the mergers is strategic, some savings, as explained in the testimony of Ronald Endres, are likely to be realized as a result the coordination of corporate and gas distribution activities. More importantly, customer service will be enhanced over time. Through the expansion of its customer base, deployment of new technologies becomes more economical. Introducing new technologies will enhance our customer service and will improve our gas distribution operations in an unbundled, competitive marketplace. As a result, Southern Union will be well positioned to control rates and improve service for the benefit of customers.

Finally, from the perspective of North Attleboro and its customers, North Attleboro will become part of a financially larger entity. The improved access to capital markets and greater flexibility in financing alternatives should bring benefits to North Attleboro and its customers.

Q. Please describe the manner in which the gas distribution system will be managed as part of Southern Union's overall operations.

A. Management at Southern Union's New England Business Unit, anchored by ProvEnergy along with Fall River Gas Company and Valley Resources, Inc., will be responsible and accountable for their operations. At the same time, the new divisions will not function wholly as stand-alone entities. Certain administrative functions such as treasury, consolidated financial reporting, and investor relations are more economical if performed on a consolidated basis and, therefore, will be performed by Southern Union for all of its operating divisions. Nevertheless, regulators and customers will have direct access to decision-makers in Massachusetts and Rhode Island, and the head of the New England Business Unit will report directly to me.

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Q. Does this conclude your testimony?

A. Yes.